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***FEDERAL AWARD SECTION***

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH **GOVERNMENT AUDITING STANDARDS**

Members of the Board  
San Antonio Water System  
San Antonio, Texas

We have audited the basic financial statements of the San Antonio Water System (the System), a component unit of the City of San Antonio, Texas as of and for the year ended December 31, 2004, and have issued our report thereon dated May 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

However, we noted other certain matters that we have reported to management of the System in a separate letter dated May 6, 2005.

This report is intended solely for the information and use of the Board of Trustees, management and appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Garza/Gonzalez*  
*& Associates*  
May 6, 2005

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Members of the Board  
San Antonio Water System  
San Antonio, Texas

### Compliance

We have audited the compliance of the San Antonio Water System (the System), a component unit of the City of San Antonio, Texas, with the types of compliance requirements described in the "U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended December 31, 2004. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that we have reported to management of the System in a separate letter dated May 6, 2005.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Garza/Gonzalez*  
*É Associates*

May 6, 2005

SAN ANTONIO WATER SYSTEM  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended December 31, 2004

**SECTION I -- SUMMARY OF AUDITORS' RESULTS**

<b><i>Financial Statements</i></b>			
	Type of auditor's report issued:	Unqualified	
	Internal control over financial reporting: • Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
	• Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
	Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

<b><i>Federal Awards</i></b>			
	Internal control over major programs: • Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
	• Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
	Type of auditor's report issued on compliance for major Programs	Unqualified	
	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section. 510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

<b><i>Identification of Major Programs</i></b>			
	<b>CFDA Numbers(s)</b>	<b>Name of Federal Program or Cluster</b>	
	66.458 10.904	Capitalization Grants for State Revolving Funds Medina River Stabilization Project	
	Dollar threshold used to distinguish between Type A and Type B programs:	\$583,844	
	Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

SAN ANTONIO WATER SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended December 31, 2004

**SECTION II --- FINANCIAL STATEMENT FINDINGS**

There were no findings required to be reported in accordance with the **Government Auditing Standards**.

**SECTION III --- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings required to be reported in accordance with the OMB Circular A-133.

SAN ANTONIO WATER SYSTEM  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For The Year Ended December 31, 2004

There were no findings or questioned costs in the prior year.

SAN ANTONIO WATER SYSTEM

CORRECTIVE ACTION PLAN

For The Year Ended December 31, 2004

PROGRAM

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CORRECTIVE ACTION PLAN

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None required.

SAN ANTONIO WATER SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2004

<u>Federal Grantor/Pass-Through/Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program/ Grant Number</u>	<u>Total Program/ Grant Award</u>	<u>Expenditures</u>
Environmental Protection Agency				
Pass Through:				
Texas Water Development Board				
Capitalization Grants for State Revolving Funds (Clean Water State Revolving Fund)				
Series 1999 A Junior Lien Revenue and Refunding Bonds	66.458	-	\$ 47,500,000	\$ 5,700,587 (2)
Series 2002 Junior Lien Revenue Bonds	66.458	-	15,650,000	4,855,119 (2)
Series 2003 Junior Lien Revenue Bonds	66.458	-	34,000,000	2,183,035 (2)
Series 2004 Junior Lien Revenue and Refunding Bonds	66.458	-	10,635,000	<u>5,546,076 (2)</u>
Total Passed Through Texas Water Development Board				<u>18,284,817</u>
Pass Through:				
Texas Natural Resource Conservation Commission				
319 Grant/Surface and Groundwater Restoration Project	66.Unknown	-	398,403	<u>163,844 (3)</u>
Total Environmental Protection Agency				<u>18,448,661</u>
United States Department of Agriculture				
Medina River Bank Stabilization Project	10.904	-	1,498,000	<u>1,012,802 (4)</u>
Total United States Department of Agriculture				<u>1,012,802</u>
Total Federal Financial Assistance				<u>\$ 19,461,463</u>

See accompanying notes to schedule of expenditures of federal awards.

## SAN ANTONIO WATER SYSTEM

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the System and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.
2. The System is indebted to the Texas Water Development Board (TWDB) as a result of the issuance of the City of San Antonio Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A, and 2004; and Junior Lien Revenue Bonds Series 2002 and 2003. The bonds were sold under the federal cross cutter program for financing qualified System improvements related to wastewater and recycled water systems. The amount reflected here represents expenditures incurred in the current year.
3. The System is required to match 40% of the federal grant funds received. Therefore, expenditures reported reflect only the amount of federal funds received.
4. The System is required to match 25% of the federal grant funds received. Therefore, expenditures reported reflect only the amount of federal funds received.